Declaration of David C. Blessing

1. I have over 29 years of experience in the area of economic and financial analysis. For the last 24 years I have been a principal in the economic consulting firm Parrish, Blessing & Associates, Inc. Our firm provides economic, financial and management consulting services primarily to regulated utilities and telecommunications companies in the continental United States and U.S. territories. Prior to this experience I held the position of Senior Economist at Rochester Telephone Corporation. While at Rochester Tel and in my current position, I have testified as an expert witness in several proceedings before state and federal courts, the Federal Communications Commission ("FCC") and several state regulatory commissions, both on regulatory matters and on the calculation of economic damages for class-action lawsuits and employment disputes. My professional background also includes an appointment to the faculty of Nazareth College of Rochester, where I taught courses in economics and finance. I hold a Bachelor of Arts degree from Kalamazoo College and a Master of Arts degree in Economics from Fordham University. In addition, I have successfully completed all required course work and comprehensive exams for my doctorate in economics.
2. For the past 17 years I have been working as an economic consultant for Alaska Communications and other Alaska telecommunications clients. My firm also provides economic analysis to power utilities and municipalities in Alaska. In the course of my practice I have had numerous occasions to analyze competition in the Alaska Communications incumbent local exchange carrier ("ILEC") study areas as well as in other Alaska ILEC study areas. These analyses were conducted in dockets before both

the FCC and the Regulatory Commission of Alaska ("RCA") dealing with long-distance Carrier of Last Resort ("COLR") designations before the RCA, universal service reform and the FCC's Connect America Fund ("CAF") Phase II proceeding, and investigations into the development of terrestrial middle-mile infrastructure in Alaska. I reviewed the data available in public and confidential materials available through the FCC, including materials filed by Alaska broadband service providers and the Commission's modeling contractor in the CAF Phase II docket (WC No. 10-90), as well as materials provided as part of FCC data collection effects (such as annual FCC Form 477 data, and data generated by the Commission's special access/business data services investigation). In addition, I have reviewed contracts and invoices provided by Alaska Communications.

3. The purpose of this declaration is to demonstrate how General Communication, Inc., through its various ILEC, Internet and other affiliates (collectively, "GCI"), today wields market power on a number of transport routes in rural and remote parts of Alaska where GCI operates monopoly facilities that are not subject to the discipline of either effective competition or regulation. Because those facilities are essential to competition from carriers such as Alaska Communications, GCI's control constitutes an unregulated bottleneck that gives GCI considerable ability to raise prices and control output – the essence of market power. The merger of GCI and LIC would only increase GCI's ability and incentive to exercise that market power, in my opinion.

4. In my experience, GCI possesses and exploits considerable market power over terrestrial middle-mile facilities serving rural and remote portions of Alaska. GCI's Terra network, as an example, represents the only terrestrial connection for communities in large swaths

of southwest and northwest Alaska, linking them to Anchorage and the rest of the world. GCI states that the rates charged for capacity on its Terra network are based on the "competitive market"[1] but in many locations that "market" consists solely of one provider, GCI, operating on an unregulated basis. As explained in more detail below, GCI controls the only terrestrial middle-mile network serving as many as 84 rural and remote communities, a network built and operated using extensive federal subsidy funding. Yet GCI prices capacity on Terra without regard to the price for comparable capacity, either in urban areas or in other rural parts of Alaska where competition has taken hold. GCI thus has the advantage of an unregulated GCI monopoly to reap super-competitive profits and raise its rival's costs.

5. The Terra network is a hybrid fiber/microwave terrestrial facility that connects 84 isolated communities spread across hundreds of square miles. Most of these communities are inaccessible by the road or rail systems.[2] Terra was constructed with substantial support from public taxpayer funds: a $44.2 million loan and a $44.0 million grant made under the U.S. Department of Agriculture's Broadband Initiatives Program ("BIP") established pursuant to the American Recovery and Reinvestment Act.[3] The project was an expansion of DeltaNet – an existing GCI regional microwave network

[1] Regulatory Commission of Alaska, *In the Matter of the Petition Filed by Alascom, Inc. d/b/a AT&T Alaska to be Relieved of its Carrier of Last Resort Responsibilities in Certain Locations in Southwest Alaska*, SUPPLEMENTAL BRIEF OF GCI COMMUNICATION CORP., at para. 21.
[2] GCI Project Terra Web site at http://terra.gci.com/project and TERRA Product Descriptions and Pricing, Effective July 1, 2017 at https://www.gci.com/media/files/gci/regulatory/gci_terra_posting_effective_070117.pdf.
[3] GCI Press Release, January 25, 2010, "GCI Subsidiary Awarded $88 Million In Federal Broadband Stimulus Funding."

originally funded through low cost Rural Utilities Service loans.[4] In addition, the Terra network has allowed GCI to receive large amounts of annual federal universal service funding under the Schools and Libraries ("E-rate") and Rural Health Care ("RHC") programs. Table 2 below, based on data published by the Universal Serice Administrative Company ("USAC"), indicates that GCI received close to $189 million in RHC and E-rate funding for Funding Years 2014 and 2015.

6. It is my understanding that the assets of the Terra network are owned by United Utilities Inc. ("UUI"). An Alaska ILEC, UUI was the entity that applied for and received the grant and low cost loans required to build Terra.[5] UUI is a wholly-owned subsidiary of GCI, and I understand that UUI sold all available capacity on Terra to another GCI affiliate that has no common carrier obligations.[6] On its application for the grant and low interest financing, UUI committed to provide other carriers access to Terra on a wholesale basis in a nondiscriminatory manner and at reasonable rates.[7] To date, that does not appear to have occurred.

7. One of GCI's arguments in favor of its BIP grant, according to its January 25, 2010 press release, was that the Terra project would alleviate the cost constraints of satellite networks.[8] Yet, the rates posted by GCI are substantially higher than the current

[4] United Utilities, Broadband USA Applications Database, Executive Summary.
[5] Broadband USA Applications Database.
[6] *Id*.
[7] Broadband USA Applications Database
[8] GCI Press Release, January 25, 2010, "GCI Subsidiary Awarded $88 Million In Federal Broadband Stimulus Funding."

negotiated rates for satellite backhaul.[9] It appears that GCI has not attempted to develop rates based on cost, but instead has posted excessively high rates, apparently with reference to satellite rates. The posted Terra rates and the lack of capacity effectively prevents wholesale customers from competing with GCI at the retail level. This is in clear violation of the letter and spirit of the program from which GCI obtained the federal funding. Recipients of BIP and Broadband Technology Opportunities Program ("BTOP") funds must adhere to certain federal nondiscrimination and interconnection requirements that are similar to those of the federal Communications Act's Title II.[10] Awardees must adhere to the principles set forth in the FCC's Internet Policy Statement, FCC 05-151, adopted August 5, 2005 which require awardees to offer reasonable terms for interconnection and wholesale services. Specifically, under the BTOP/BIP Notice of Funds Availability ("NOFA"), awardees must "offer interconnection on reasonable rates and terms to be negotiated with requesting parties."[11] According to the National Telecommunications and Information Administration interpretation of this language in the NOFA, this means that Awardees "should offer wholesale broadband services at rates and terms that are reasonable and non-discriminatory."[12]

---

[9] My understanding from Alaska Communications is the cost satellite backhaul capacity is $4,000 per month for a T-1 (1.544 Mbps).

[10] *See* Dept. of Agric. Rural Utilities Service Broadband Initiatives Program/Dept. of Commerce National Telecommunications and Information Administration Broadband Technology Opportunities Program, Notice of Funds Availability, 74 Fed. Reg. 33104, 33110 (July 9, 2009) ("BTOP/BIP NOFA").

[11] BTOP/BIP NOFA, 74 Fed. Reg. at 33, 111.

[12] NTIA Fact Sheet, Broadband Technology Opportunities Program Nondiscrimination and Interconnection Obligations U.S. Dept. of Commerce, 2, http://www2.ntia.doc.gov/files/Interconnection_Nondiscrimination_11_10_10_FINAL.pdf)(La st visited Oct. 18, 2012).

8. The publicly available summary of GCI's application shows that GCI/UUI committed to carry out these duties. GCI agreed to "offer wholesale and retail services to carriers and other customers that wish to provide or use broadband and other services in Service Area communities,"[13] and took responsibility for negotiating in good faith with parties making *bona fide* requests for interconnection.[14] UUI reported that it had secured GCI's commitment to purchase middle mile capacity to carry GCI's interexchange voice and data traffic but never indicated that it had committed nearly one hundred percent of the Terra capacity to its affiliate GCI, nor that it would refuse capacity to any other wholesale customer.[15] It should be noted that interexchange voice and data traffic include intrastate traffic which undeniably falls under the jurisdiction of the RCA despite GCI's claims to the contrary.

9. Despite its commitments, GCI has foreclosed competition and violated its broadband resale obligations by pricing transport at discriminatory rates far above cost or refusing to furnish it at all. The pervasiveness of the problem and the use of public money makes enforcement from the FCC and the RCA all that more important.

10. Given this background, I have analyzed available data to determine if it would provide evidence that GCI is using its control of middle mile facilities in the Alaska to forestall competition and inflate its receipt of federal universal service funds over and above the levels consistent with its actual need for support. My analysis indicates that, in fact, this

[13] UUI, "TERRA-SW: Terrestrial Broadband In Southwestern Alaska," Executive Summary, 2, available at: http://www.ntia.doc.gov/broadbandgrants/applications/summaries/93.pdf.
[14] *Id*.
[15] *Id.* at 3.

is the case. GCI has so far avoided any regulatory oversight that could ensure that it provided wholesale access to these facilities at reasonable, nondiscriminatory rates. As discussed below, communities in those parts of Alaska where GCI controls terrestrial middle mile are not likely to see effective competition develop unless some for oversight is established.

11. One set of data I have closely analyzed is the distribution of federal subsidies among Alaska's telecommunications carriers. I have reviewed all or virtually all publicly available information from USAC on the federal high-cost and low-income support programs, the E-rate program and the RHC program for the past several years. And I have reviewed requests for proposal ("RFPs") and bid information provided to me by Alaska Communications.

12. Examination of federal universal service funding for Alaska shines a very bright light on GCI's exploitation of its market power over terrestrial middle mile facilities in certain parts of the state. Alaska receives $491.78 in per capital federal support - more than 2.5 times the per capita federal support that the next highest state or territory receives and more than 19 times the national average.[16] Based on publicly available data and reports available on the USAC website, GCI receives 59.54 percent of the total amount of federal support coming to Alaska. As Table 1 below indicates, GCI receives the vast majority

[16] Federal Support data from Table 1.9, 2016 FCC Universal Service Monitoring Report; population data from Table 1, Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2016 (NST-EST2016-01), U.S. Census Bureau, Population Division (released December 2016).

(70% or higher) of federal support flowing to Alaska for three of the four federal programs.

13. A large portion of the federal support flowing to GCI comes from services that rely on its Terra middle mile network. Table 2 below shows the authorized funding commitments for E-rate and estimated support for RHC that came to Alaska for the Funding Years 2014 – 2015 (July 2014-June 2016) based on data found on the USAC website.[17] The E-rate funding commitments are the dollars that USAC has committed during the funding years that have been authorized to be paid out. It is equal to the discount amount, *i.e.,* 90% of the total cost accepted on an application. The RHC amounts are the estimated support provide for each granted application. The Table begins with the total E-rate and RHC support amounts flowing to Alaska. The totals are broken down to the amounts going to GCI and its affiliates, those going to communities served by Terra, and those going communities served by Terra where GCI is the incumbent local exchange carrier ("ILEC"). Some E-rate funding goes to communities served by Terra where GCI is not the local exchange service provider. Those are likely for local voice services or long-distance voice services. The results of this analysis are summarized as follows:

    a. Over the two funding years $171.5 million went to Alaska from the RHC program and $150.2 million from E-rate for a total of $321.7 million.

[17] Funding years 2014 and 2015 data are used here because it is only in this format that data is available that allows the separate the funding by city where the service is provided. USAC Data Sources:
E-rate: USAC Schools and Libaries Fund Data Retrieval Tool:
http://www.usac.org/about/tools/fcc/filings/default.aspx
Rural Health Care Funding Commitment Search Tool:
http://www.usac.org/about/tools/fcc/filings/default.aspx

b. GCI received $134.9 million from RHC and $111.4 million from E-rate for a total of $246.3 million. The GCI take represented 76.56% of the total.

c. Terra communities were the beneficiaries of $94.5 million in RHC support and $94.7 million in E-rate. The Terra communities received a total of $189.2 million or 58.83% of the total.

d. GCI was the service provider for all $94.5 million in RHC support going to the Terra communities. It received $86.3 million of the $94.7 million of the E-rate funding going to the Terra communities. This sums to $180.9 million

e. GCI received a large majority (73.43 percent) of its RHC and E-rate support from Terra communities. Only $65.4 million of the RHC and E-rate support flowing directly or indirectly to GCI from the two funding years was from non-Terra communities.[18]

f. GCI also was the service provider for 53.99 percent (1,036) of the 1,919 funded applications for the two funding years.

g. The funded applications serving the Terra communities where GCI was the service provider made up just 22.72 percent of the total Alaska applications that were funded but 84.86 percent of the funded GCI applications.

h. This implies that the amount per funded application going directly or indirectly to GCI for Terra communities is substantially greater than the overall average per-application funding across all applications. The data bear this out. The average amount per funded application for GCI-Terra was $488,852. The average per-application funding in Alaska during the funding years analyzed was $167,633. The average support for GCI's non-Terra funded applications was $98,274. This is right in line with the overall non-Terra average of $89,314.

14. These results confirm that GCI gets the lion's share of the state's E-rate and RHC support, and most of that comes from GCI's Terra-based operations. Support per funded application that GCI receives in the Terra communities is almost 5.5 times greater than the average for the non-Terra applications. This, coupled with the fact that GCI receives 95.58

[18] In the case of E-rate support the subsidy flows is directly to GCI. With the RHC program the support is provided to the Health Care Provider which then pays GCI.

percent of the total support going to Terra communities, points to a conclusion that GCI is using its monopoly control of the Terra middle-mile network to exploit the RHC and E-rate programs.

15. The E-rate and RHC programs support the development and operation of high-bandwidth infrastructure in rural and remote areas equal to or a percentage discount off the quoted rate in the case of E-rate and the Health Care Connect Fund of the RHC, or the difference between a carrier's quoted rate and the average urban rate in the case of the Telecommunications Program of the RHC. In either case, without competition from other carriers, GCI has no incentive to reduce the quoted rates for these facilities, and USAC does not appear to have questioned GCI's rates though they are hundreds of times higher than other rates for comparable services in Alaska.

16. The E-rate and RHC programs were designed with the idea that if support were provided and openly accessible, multiple carriers would be incented to bid on these rural contracts.[19] Such competitive bidding would bring down the quoted price thereby reducing the amount of support to no higher than the level necessary to cover the costs of the lowest cost bidder. GCI's control of the essential middle mile facilities serving the Terra communities, as well as in Kodiak, Sitka, Ketchikan, and other locations, and its reluctance to provide wholesale access to these facilities at reasonable rates means that there is no competitive bidding process. The result is inflated prices to health care providers, schools and libraries, and unnecessarily high support flows from USAC to GCI.

[19] *See* USAC web site at: http://www.usac.org/sl/about/getting-started/default.aspx and http://www.usac.org/rhc/telecommunications/health-care-providers/competitive-bidding.aspx.

17. The pricing for wholesale access to GCI-controlled broadband in the Bush will not provide a wholesale provider with the opportunity to successfully compete against GCI's retail operations. For example, the retail cost the DSL internet service provided by GCI's ILEC subsidiary in Akiak and Bethel as well as other TERRA communities is $64.99 per month for 2 Mbps download speed.[20] That translates into a per MBPS cost of $32.50 for an entire DSL service, yet GCI charges $7,396 per Mbps for wholesale middle mile bandwidth into these communities from Akiak or Bethel to Anchorage, as shown in Table 3 below. GCI's retail rate for internet service is 0.44% of the wholesale rate for just the middle mile component. As middle mile transport is an essential component of an internet service that must carry the signal from Akiak to Anchorage and then down to the internet peering locations in Seattle or Oregon, the fact that GCI is charging more than 200 times its retail rate for wholesale access to an essential component represents a very significant price squeeze. Such a result forestalls any opportunity for a competitor to offer a competing retail internet service in the Terra communities.

18. GCI's market power over an essential telecommunications component of Internet, data and voice services in rural and remote areas of Alaska, and the resulting monopolistic pricing, likely affects not only retail prices but also other aspects of service as well. GCI's ILEC subsidiaries' DSL service offerings range from 512 kbps download speed to a top bandwidth of 6 Mbps. According to the FCC's Universal Service Monitoring Report, 54% of Alaska's households subscribed to internet service with at least a 10 Mbps download speed. Further, the GCI ILEC's 2 Mbps service available to the Terra communities

[20] *See* UUI web site at: http://www.uui-alaska.com/internet/.

includes a monthly usage limit of 15 GB.[21] It offers plans with usage limits up to 100 GB. This compares to the minimum usage limit standard of 150 GB established by the FCC for rural Alaska carriers as part of the Alaska Plan Order.[22]

19. As discussed above, the FCC's universal service programs are significantly impacted by GCI's above-market pricing in Bush Alaska. For example, Table 1 below shows that of all USAC payments under the RHC program in funding year 2015, 35.1% were dedicated to projects in Alaska.[23] Although services were provided by several different eligible telecommunications carriers ("ETCs") in the state, GCI received nearly 80 percent of the support USAC estimated RHC support for funding years 2014 and 2015.[24] Across all four programs, GCI received and estimated 57 percent of the total federal universal service support flowing to Alaska in 2016.

20. Taken together, these results paint a picture of an entity that is using its bottleneck control of essential middle-mile facilities in large portions of rural and remote Alaska to generate a windfall in federal support, and otherwise charge above-market rates to raise its rivals costs. GCI maintains this control by restricting wholesale access through unreasonably high prices and making only limited amounts of capacity available, and over-charging

---

[21] *Id.*
[22] *Connect America Fund – Alaska Plan,* Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139, ¶¶22-23 (2016). The FCC determined that Alaska rural carriers opting into the Alaska Plan will be required to certify that they offer a minimum usage allowance of 150 GB per month, or a usage allowance that reflects the average usage of a majority of consumers, using Measuring Broadband America data or a similar data source, whichever is higher. *Id.*
[23] Federal Support data from Table 1.9, 2016 FCC Universal Service Monitoring Report.
[24] *See* Table 2 below. Data based on Funding Years 2014-2015, Rural Health Care Funding Commitment Search Tool: https://rhc.usac.org/hcf/public/CommitmentSearch.htm.

competitors, despite committing to making wholesale capacity available at reasonable prices (as it was required to do in order to receive the federal grants for the construction of Terra). This behavior has resulted in anti-competitive effects on the market and harm to consumers in Alaska. Should GCI grow larger, through the proposed merger with LIC, GCI's ability and incentive to exercise that market power would in all likelihood increase.

Table 1

Table 1: GCI 2016 Support: Wireless, Wireline CETC and ILEC					
	High Cost	Low Income	E-Rate	RHC	Total
Wireless (ACS & 619014)	$ 48,149,913	$ 8,679,669	$ -	$ -	$ 56,829,582
GCI ILEC (Yukon and UUI)	$ 7,313,922	$ 207,322	$ 4,526	$ -	$ 7,525,770
GCI NR	$ 11,286,522	$ -	$ -		$ 11,286,522
GCI CETC Wireline (619001)	$ 6,242,718	$ 243,244	$ 64,051,231	$ 78,574,759	$ 149,111,952
Total GCI	$ 72,993,075	$ 9,130,235	$ 64,055,757	$ 78,574,759	$ 224,753,826
Total Alaska	$ 180,906,030	$ 10,511,313	$ 87,133,526	$ 98,903,739	$ 377,454,607
GCI % to Total	40.35%	86.86%	73.51%	79.45%	59.54%
Sources:					
High Cost: USAC Reports HC01 1st Qtr - 4th Qtr 2016					
	1st Qtr 2016	HC01	http://www.usac.org/about/tools/fcc/filings/2016/q1.aspx		
	2nd Qtr 2016	HC01	http://www.usac.org/about/tools/fcc/filings/2016/q2.aspx		
	3rd Qtr 2016	HC01	http://www.usac.org/about/tools/fcc/filings/2016/q3.aspx		
	4th Qtr 2016	HC01	http://www.usac.org/about/tools/fcc/filings/2016/q4.aspx		
Low Income: Usac Report LI05					
	2nd Qtr 2017	LI05	http://www.usac.org/about/tools/fcc/filings/2017/q2.aspx		
E-Rate: USAC Schools and Libaries Fund Analysis Tool			http://www.usac.org/about/tools/fcc/filings/default.aspx		
			RHXX FY 20XX Disbursements by Funding Year		
Rural Health Care			http://www.usac.org/about/tools/fcc/filings/default.aspx		
			RHXX FY 20XX Disbursements by Funding Year		

Table 2

Table 2: Overview of Service Support for Terra SW Locations			
2014-2015 Funding Years			
	RHC and E-Rate Funding Commitments - Alaska		
	Schools & Libraries Commitments	**Rural Health Care Estimated Support**	**Total SL and RHC**
Total AK Commitment/Est. Support	$150,162,035	$171,525,561	$321,687,596
Total # of Alaska Support Applications	878	1,041	1,919
Est. Alaska Support per Application	$ 171,027	$ 164,770	$ 167,633
GCI Commitment/Est. Support	$111,380,544	$134,945,220	$246,325,764
# of GCI Supported Applications	294	742	1,036
Support/Commitment per Application	$ 378,845	$181,867	$ 237,766
Terra Commitment/Est. Support	$94,690,700	$94,543,485	$189,234,185
# of Terra Supported Applications	$ 168	268	436
Support/Commitment per Application	$ 563,635	$ 352,774	$ 434,023
GCI Terra Commitment/Est. Support	$86,331,719	$94,543,485	$180,875,204
# of GCI Terra Supported Applications	102	268	370
Support/Commitment per Application	$ 846,389	$ 352,774	$ 488,852
% AK Estimated Support to GCI	74.17%	78.67%	76.57%
% AK Support Applications to GCI	33.49%	71.28%	53.99%
% AK Support $ to Terra	63.06%	55.12%	58.83%
% AK Support Applications to Terra	19.13%	25.74%	22.72%
% Estimated Support $ to GCI Terra	57.49%	55.12%	56.23%
% AK Support Applications to GCI Terra	11.62%	25.74%	19.28%
% Estimated GCI Support From Terra	77.51%	70.06%	73.43%
% Funded GCI Applications From Terra	34.69%	36.12%	35.71%
% Estimated Terra Support to GCI	91.17%	100.00%	95.58%
% Funded Terra Applications to GCI	60.71%	100.00%	84.86%
GCI Non-Terra support			$65,450,560
GCI Non-Terra funded applications			666
Funding per Application GCI Non-Terra			$ 98,274.11
% total GCI Support to Non-Terra			26.57%
AK non-Terra Support			$132,453,411
AK non-Terra Funded Apllications			1,483
Funding Per Application Non-Terra			$ 89,314.51

Table 3

Table 3: Terra Pricing Examples; Effective July 1, 2017

Route	Pricing Type	Hub Port Cost per 1 Mbps	Edge Port Cost per 1 Mbps	Total Cost per 1 Mbps
Anchorage to Akiak	Standard No CCF Discount	$ 768	$ 6,528	$ 7,296
Anchorage to Bethel	Regional With CCF Discount	$ 648	$ 5,508	$ 6,156
Anchorage to Akiak	Standard With CCF Discount	$ 720	$ 6,120	$ 6,840
Anchorage to Bethel	Regional No CCF Discount	$ 691	$ 5,875	$ 6,566

Assumes 3 year, Contract 1-100 Mbps Circuit
Critical Community Facility Discount: 25% off of published month to month rates

Source: TERRA Product Descriptions and Pricing, Effective July 1, 2017 at https://www.gci.com/-/media/files/gci/regulatory/gci_terra_posting_effective_070117.pdf

The foregoing is true and complete to the best of my information, knowledge and belief.

/s/ David C. Blessing June 19, 2017